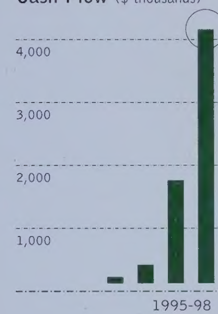
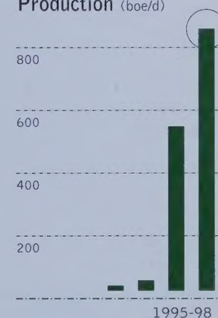
BELFAST PETROLEUM INC.

98
Annual Report

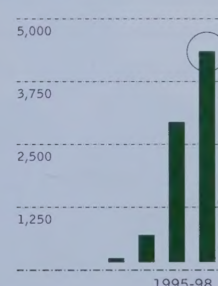
Cash Flow ($ thousands)



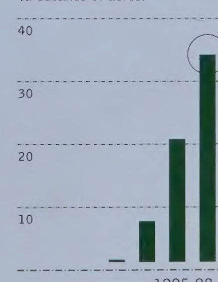
Production (boe/d)



Reserves (mboe, P+P)



Undeveloped Land
(thousands of acres)



Annual General Meeting

The Annual Meeting of the shareholders will be held on June 8th, 1999 at 10:30 a.m in the Angus/Northcott room of the Bow Valley Square Conference Centre located at 300, 205 - 5th Avenue SW, Calgary, Alberta.

Contents

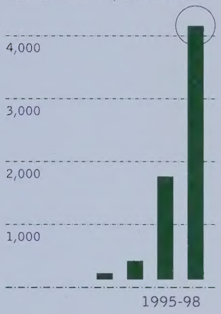
Corporate Profile

Belfast Petroleum Inc. is an emerging junior oil and gas exploration and production company actively expanding its reserve and production base in Western Canada. The Company's objectives are to demonstrate sustainable growth in cash flow, earnings, and asset value by pursuing high quality, liquid-rich natural gas and light oil plays primarily in west-central Alberta. Incorporated in 1993, Belfast's shares were listed on the Alberta Stock Exchange and began trading under the symbol "BPY" in October 1994.

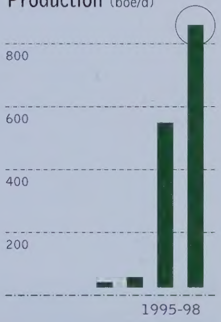
HIGHLIGHTS

($ thousands except per share figures)	1998	1997	% Change
Financial			
Oil and gas revenue	6,202	3,267	+89
Cash flow from operations	4,163	1,776	+134
Per share – basic	0.28	0.16	+75
Net earnings	1,583	475	+233
Per share – basic	0.11	0.04	+175
Capital expenditures	12,997	11,797	+10
Long term debt	3,500	–	–
Working capital (deficiency) at December 31	(672)	2,420	–128
Shareholders' equity	17,943	14,227	+26
Common shares outstanding – basic			
Weighted average	15,062,364	11,304,795	+33
At year-end	16,286,000	14,885,000	+9
Operating			
Production (before royalties)			
Natural gas (mcf/d)	4,850	1,710	+184
Oil (bbls/d)	125	100	+25
NGLs (bbls/d)	243	281	–14
Barrels of oil equivalent (boe/d)	853	552	+55
Average sales price			
Natural gas ($/mcf)	2.08	1.62	+28
Crude oil ($/bbl)	12.83	19.76	–35
NGLs ($/bbl)	16.69	14.85	+12
Wells drilled (net)			
Oil	4 (1.1)	7 (3.2)	–43
Gas	14 (6.6)	5 (3.0)	+180
Dry and abandoned	6 (3.2)	2 (0.7)	+200
Total	24 (10.9)	14 (6.9)	+71
Average working interest (%)	45	49	
Reserves before royalties (mboe)			
Proved	3,588	2,428	+48
Probable	808	558	+45
Total	4,396	2,986	+47
Land holdings			
Gross acres	111,682	47,223	+136
Net acres	40,007	20,657	+94
Average working interest (%)	36	44	
Net undeveloped acres (interest %)	34,513 (39)	16,030 (46)	+115

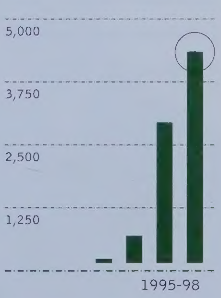
Cash Flow ($ thousands)



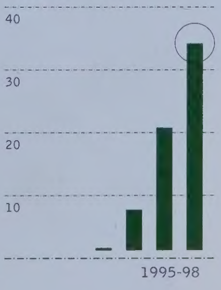
Production (boe/d)



Reserves (mboe, P+P)



Undeveloped Land (thousands of acres)



Belfast is pleased to announce that the Company achieved record operational and financial results during 1998. The Company believes this reflects its disciplined approach to asset growth. This approach includes balanced exploration and exploitation activities and an opportunity driven capital expenditure program.

The Company generated substantial production and reserve growth in 1998, established two new core areas, and received higher netbacks year over year. Entering 1999, Belfast is well positioned to take advantage of acquisition and exploration opportunities arising from the current downturn in the industry.

Belfast's financial and operating results for 1998 were solid in comparison to general oil and gas industry performance. The industry experienced a dramatic downturn in activity levels during 1998, primarily as a result of low crude oil prices which averaged US$14.42 WTI per barrel. In sharp contrast, strong natural gas prices fuelled by new pipeline capacity and declining deliverability exceeded $2.00 per mcf during the fourth quarter of 1998.

As a result of the decline in crude oil prices during 1998, the industry experienced lower cash flows, reduced capital spending and a new wave of merger and acquisition activity. A consequential withdrawal in the equity markets had a large impact in the industry during 1998 and for many junior producers, this meant that capital expenditures were constrained to the limitations of cash flow and debt. Until capital equity markets return, Belfast will focus on lower risk, cash flow generating opportunities.

1998 Highlights

Production volumes increased by 55% in 1998 to 853 boe/d up from 552 boe/d in 1997.

Cash flow rose 134% to $4.2 million during the year from $1.8 million last year, and net earnings were 233% higher in 1998 at $1.6 million relative to $475,165 in 1997.

Belfast drilled a record number of wells in 1998, totalling 24 wells (11 net) for an overall success rate of 75%. The average depth per well was 2000 meters.

Capital expenditures totalled $13.0 million during 1998 resulting in reserve additions, net of revisions, of 1.72 million barrels of oil equivalent (proved plus probable), yielding a finding and development cost of $7.55/boe which replaced production by 5.5 times.

High 1998 netbacks of $13.50/boe were achieved due to low operating costs of $3.00/boe, and high gas and liquid sales prices which averaged $2.08/mcf and $15.38/bbl respectively.

Two new prolific gas prospect areas were established at Sylvan Lake and Strachan/Deanne during the year.

The Company maintained a strong financial position and a modest 1998 year-end debt to trailing cash flow ratio of 1.0 times.

The Company's Exploration team was strengthened with the addition of Mr. Helmut Eckert as Land Manager in early 1999.

1999 Corporate Direction

In 1999, the Company will continue to focus on building long term value for our shareholders by increasing production and reserves while maintaining prudent financial discipline. Belfast believes that its success in the upcoming year will be directly attributable to management's ability to identify and realize upside potential value from existing and new prospects, by the timely execution of field activities, and by maintaining flexibility in operating strategy and financial position.

Belfast's exploration thrust in 1999 will be focused on areas exhibiting long life reserves, liquid rich natural gas, and contiguous tracts of undeveloped land. During 1999, Belfast will return to a "back to basics" exploitation strategy. The Company will conduct more wellbore re-entries and recompletions in evaluating gas prospect deliverability and reserve potential.

In anticipation of more reasonable vendor expectations, Belfast is positioned to capitalize on selective property acquisitions that exhibit the necessary growth potential.

Outlook

Looking forward, Belfast expects strong gas prices during 1999, and a continued soft crude oil and natural gas liquids market. In response to these conditions, Belfast will keep a watchful eye on its balance sheet and cash flow until market conditions improve.

The Company is in a strong financial position to capitalize on the recent downturn in the industry. During 1999, management anticipates that the cost and availability of high quality exploration prospects, acquisitions and undeveloped land will significantly improve. Service industry costs will decline and industry farm-ins will become more accessible. We intend to take advantage of these opportunities thereby achieving the critical mass necessary to be an active industry participant when the health of the energy sector returns.

Acknowledgements

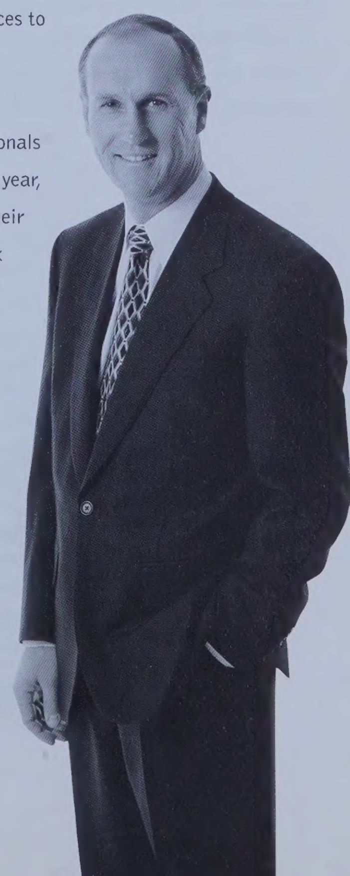
Regrettably in 1998, Don McMorland, an original member of Belfast's Board of Directors, passed away. The Company benefited greatly from Don's guidance, enthusiasm and significant contributions. Belfast's staff and Directors wish to extend their sincere appreciation and condolences to the McMorland family.

The Company thanks its dedicated team of professionals for their efforts during the year, and the shareholders for their continued support. We look forward to another year of exciting developments and profitable growth for the Company.

Respectfully submitted on behalf of the Board of Directors,

Barry J. Stobo,
President and CEO

March 19, 1999



Operating Strategy

The Company will focus on activities that will increase production and cash flow in the short term and recoverable reserves in the long term.

Belfast will focus on lower cost prospects including cased wellbore re-entries and recompletions.

Management will maintain an "eye for value" by screening new areas for anomalies and bypassed pay opportunities.

The Company will add new core areas through acquisitions, farm-ins or strategic partnerships.

Belfast will pursue strategic acquisitions in new areas that exhibit upside potential and where a minimum 50% interest can be acquired.

Drilling will be directed towards natural gas opportunities, while acquisitions will be directed towards under-valued crude oil properties.

New technologies such as underbalanced horizontal re-entries will be utilized where appropriate.

The Company will modify its natural gas exploration program focusing on shallower targets (less than 1,500 metres) while reducing the capital exposure in deeper prospects (greater than 2,000 metres).

Operations highlights include drilling a record number of wells during 1998, and the establishment of two new prolific gas prospect areas. A significant reduction in operating costs was also realized during the year.

Company Acreage

	Developed		Undeveloped		Total		Average
(Acres, as at December 31, 1998)	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*	*WI*
Bigoray	–	–	1,920	1,920	1,920	1,920	100%
Bottrel	640	–	10,080	4,933	10,720	4,933	47%
Brazeau River	1,120	160	5,760	1,712	6,880	1,872	28%
Chickadee	640	–	1,280	1,120	1,920	1,120	59%
Cyn-Pem	160	43	4,960	2,216	5,120	2,259	45%
Deanne	1,120	244	2,880	581	4,000	825	21%
Lodgepole	4,160	1,824	14,240	6,473	18,400	8,297	46%
Paddle River	–	–	5,132	2,457	5,132	2,457	48%
Pembina	4,080	1,471	4,400	1,502	8,480	2,974	36%
West Cove	–	–	2,240	2,240	2,240	2,240	100%
West Pembina	800	360	1,760	600	2,560	960	38%
Willesden Green	4,800	702	8,000	1,061	12,800	1,763	14%
Other	5,550	689	26,121	7,698	31,511	8,387	27%
Total	23,070	5,493	88,773	34,513	111,683	40,007	36%

Core Areas

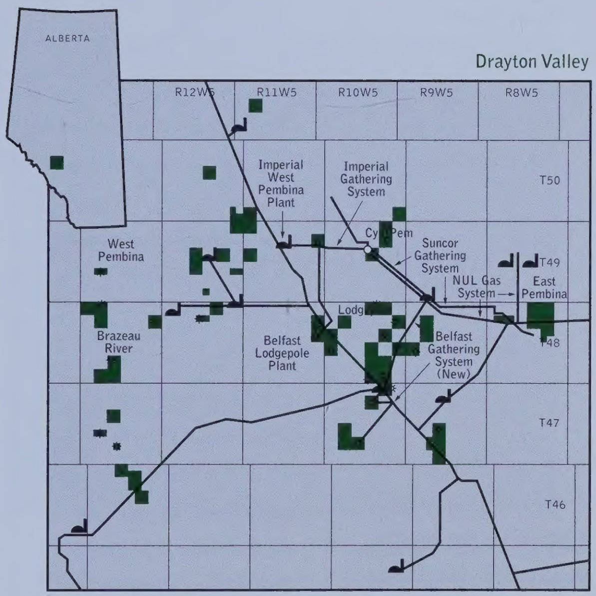
Drayton Valley

Belfast has been active in the Drayton Valley area of Alberta since 1996 with core operations located near Cyn-Pem, Lodgepole, Pembina and Brazeau River. Belfast holds an average working interest of 40% in 47,360 acres of land.

The area is characterized by sweet oil, gas and condensate production from the Tertiary Paskapoo Formation, the Cretaceous Notikewin, Glauconite, Ostracod and Ellerslie intervals as well as the Jurassic Rock Creek and Nordegg zones. Additional sour gas potential exists in the Mississippian Age Shunda Formation.

Drilling depths in the region range from the Paskapoo at Cyn-Pem (400 meters) to the Shunda Formation at Brazeau River (2,800 meters).

During 1998, net production to the Company averaged 254 bbls/d and 3.7 mmcf/d for a combined total of 624 boe/d representing 73% of total 1998 production.



In 1998, Belfast drilled or re-entered 14 wells (6.1 net) which resulted in 7 gas wells (2.8 net) and 3 oil wells (0.75 net) for a success rate of 71%.

In 1998, Belfast drilled or re-entered 14 wells (6.1 net) in the Drayton Valley area resulting in 7 gas wells (2.8 net), 3 oil wells (0.75 net) and 4 wells drilled and abandoned (2.5 net) for an overall success rate of 71%.

The most notable Lodgepole discoveries included the 2-3-48-10 W5M Ellerslie/ Rock Creek gas well (27% net) with initial production rates exceeding 2.0 Mmcf/d, the 10-27-47-10 W5M Ostracod gas well (25%) at 4.0 Mmcf/d and the 02/15-35-47-10 W5M Rock Creek oil well (25%) which produces 70 boe/d.

A convertible farm-out of 100% Company lands in the Brazeau River area, resulted in a successful Rock Creek oil discovery at 11-9-48-13 W5M. Pending results of an extended pool shut-in and build up analysis, further infill drilling potential exists on offsetting 50% working interest lands.

At Cyn-Pem, a Paskapoo well (50% net) completed during 1997 was tied-in and placed on production during the first quarter of 1998.

One of the significant projects completed during 1998 was the expansion of the Belfast operated Lodgepole gas plant located at 13-35-47-10 W5M. The first full year of plant operations resulted in raw gas throughput average of 19 Mmcf/d. In September 1998, higher area deliverability necessitated a plant expansion from 20 Mmcf/d to 30 Mmcf/d raw inlet capacity. Belfast holds a 27% post expansion interest and continues to operate the facility.

The Company will continue to pursue third party processing opportunities at Lodgepole to ensure sustained profitability and load factor at the Lodgepole gas plant.

Recent activity in the area included the completion and tie-in of four wells in the first quarter of 1999 and ongoing exploration evaluation for bypassed pay opportunities. Belfast has assembled an inventory of drillable deeper gas prospects on Company controlled acreage.

Paddle River

The Paddle River property is located approximately 100 kilometers northwest of Edmonton, Alberta and has been a core exploration area for the Company since 1997. Belfast's land holdings totaled 7,372 acres (4,697 net) at 1998 year-end for an average working interest of 64%.

The area is characterized by sweet oil (29° API) production from the Ostracod 'A' Pool, sweet gas production from the Glauconite Formation, sour oil and gas production from the Nordegg zone and additional Banff Clarke's Member oil potential. Well depths range from 1,200 to 1,600 meters and the area is accessible year-round.

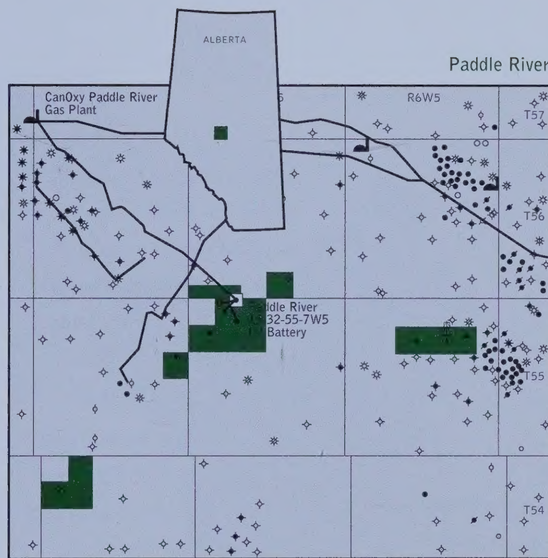
At the end of 1998, Belfast held an average working interest of 52% in three producing wells yielding net production to the Company of 65 boe/d.

During 1998, five wells (2 net) were drilled targeting the Ostracod and Nordegg Formations resulting in four commercial wells for an 80% success rate. A cased wellbore re-entry to evaluate the Ostracod Formation at 10-30-54-8 W5M on 100% lands resulted in commercial gas rates, however, they were insufficient to justify a lengthy tie-in.

Belfast obtained GOR Penalty Relief for the Ostracod 'A' Oil Pool from the AEUB during the third quarter of 1998 that effectively eliminated oil production restrictions on two Company operated producing wells. During the third quarter of 1998, gas conservation facilities were installed, connecting a Nordegg gas well at 6-32-55-7 W5M and solution gas collected at the 15-32-55-7 W5M oil battery to the Paddle River gas gathering system and processing plant.

During the first quarter of 1999, the Company conducted a cased wellbore horizontal re-entry targeting a Nordegg gas zone in a 100% working interest well. Completion results from this operation are expected early in the second quarter and if successful, would provide additional drilling and recompletion opportunities.

A second re-entry to evaluate Glauconite gas potential in the 14-32-55-7 W5M well (40% WI) resulted in stabilized wellhead deliverability of 1.4 Mmcf/d and associated liquids at high flowing pressures. The well was tied-in and brought on-stream during March 1999.



During 1998, five wells (2 net) were drilled targeting the Ostracod and Nordegg Formations resulting in four commercial wells for an 80% success rate.

Reserve estimates based on material balance calculations indicate that the Paddle River Ostracod 'A' Pool may contain up to 8 million barrels of oil in place. Several low risk in-fill drilling locations on Company controlled lands have been identified and will be pursued when oil economics improve.

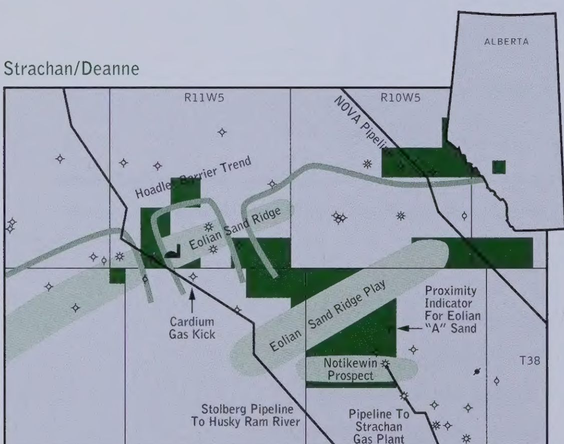
In addition, Belfast has identified a number of medium gravity Banff Clarke's Member seismic anomalies that are drillable pending improvement in crude oil prices.

Strachan/Deanne

The Strachan/Deanne property is located approximately 40 kilometers southwest of Rocky Mountain House, Alberta. This property was added to the Company's portfolio during 1998 through the acquisition of various interests from two companies.

At the end of 1998, the Company held an average working interest of 21% in 4000 acres of developed and undeveloped land including a 25% working interest in a producing gas well and processing facility. Net production to the Company at year-end was approximately 70 boe/d.

Strachan/Deanne



This property was added to the Company's core area portfolio during 1998 following the acquisition of various interests from two companies.

The property produces sweet, liquid-rich natural gas from the Glauconite Formation at depths up to 3500 meters. The productive Glauconite eolian sand is an extension of the Hoadley marine barrier bar complex that runs approximately 80 kilometers from Hoadley, near Rimbey, Alberta southwest to Deanne. The area is characterized by productive zones that exhibit significant, long life reserves and low production decline rates. Additional sweet gas potential exists in the Viking, Cardium and Notikewin Formations.

The remaining recoverable gas reserves from the Deanne Glauconite 'A' Pool are substantial. Reserve estimates, based upon material balance calculations, indicate that a minimum of 36 bcf of natural gas and associated gas liquids remain to be recovered for an ultimate pool recovery of over 50 bcf plus liquids from three existing producing wells. Given the relatively low rates of withdrawal from Glauconite pools in the area, a reduced spacing approval was granted to a major producer on an adjacent Glauconite pool during 1998.

During the first quarter of 1999, Belfast signed a letter of intent with a major producer to acquire additional producing and non-producing assets and undeveloped lands totalling over 13,000 net acres in the Deanne/Strachan area. This acquisition significantly increases Belfast's proved reserves and undeveloped land inventory. Upon closing, the Company plans to bolster its production and reserves from the area by drilling up to four new wells and acquiring additional strategic interests.

Joffre D-2 Unit No. 1

The Joffre D-2 Unit is in close proximity to Red Deer, Alberta. Belfast acquired a 7.7% unit working interest from a major producer during the fourth quarter of 1998. The property is characterized by 41° API light gravity crude oil and associated natural gas production from the

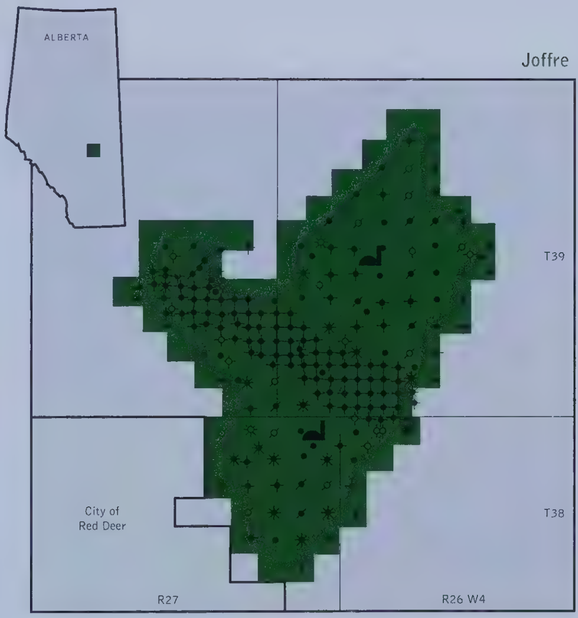
Nisku Formation. Other attributes include low production declines, long life reserves and a premium sales price. Unit production averaged 1,128 boe/d for 1998. Belfast's net production is expected to average 80 boe/d for 1999.

Belfast believes this property contains significant upside potential through higher crude oil prices, horizontal drilling and re-entries based on previous successes on the property.

Other Areas and Initiatives

Belfast has negotiated purchases and farm-ins on several prolific gas prospects in the Sylvan Lake/Gilby areas of Central Alberta. The Company intends to conduct selective wellbore re-entries and recompletions in by-passed pay zones followed by an area delineation drilling program.

The Company will continue to source and pursue opportunities that can be tested with relatively low capital outlay during 1999. Strategic property acquisitions that exhibit the desired upside attributes with a significant working interest will also be targeted.



Belfast acquired a 7.7% unit working interest from a major producer during the fourth quarter of 1998. Attributes include low production declines, long life reserves and a premium sales price.

Belfast will modify its gas exploration program in 1999 to include larger scale multi-well farm-in commitments on seismically defined shallower targets of less than 1,500 meters. The Company will retain upside exposure on internally generated and controlled high impact deep gas prospects by balancing capital participation with the farm-out of residual interests.

Safety and Environment

Belfast recognizes that the production of crude oil and natural gas liquids includes operating with responsible safety and environmental practices. Accordingly, the Company has implemented policies and procedures that strongly encourages employees and contractors to fulfill their safety and environmental responsibilities as an integral component of their work.

Belfast achieved a significant increase in reserves between December 31, 1997 and year end 1998. Proved reserves have grown from 2,428 thousand barrels equivalent to 3,588 thousand barrels equivalent year over year.

Reserves

Proved reserves have grown from 2,428 thousand barrels equivalent to 3,588 thousand barrels equivalent year over year. Proved plus probable reserves increased from 2,986 thousand barrels equivalent to 4,396 thousand barrels equivalent. Belfast's finding and development costs, after revisions, were $8.83 per barrel of oil equivalent (proved) and $7.55 per barrel of oil equivalent (proved plus probable).

The volumes and present value of Belfast's petroleum reserves have been evaluated as at December 31, 1998, by Paddock Lindstrom & Associates Ltd. in their report dated March 17, 1999 (the "Paddock Report"). The following tables summarize the Paddock Report. The present value of the estimated future revenue before tax to be derived by the Company's petroleum reserves includes ARTC.

Reserve Reconciliation

	Oil & NGLs			*Natural Gas*			*BOE*		
	Proven (Mstb)	*Probable (Mstb)*	*Total (Mstb)*	*Proven (Mmcf)*	*Probable (Mmcf)*	*Total (Mmcf)*	*Proven (Mboe)*	*Probable (Mboe)*	*Total (Mboe)*
December 31, 1997	1,282.0	291.6	1,573.6	11,460	2,665	14,125	2,428.0	558.1	2,986.1
Drilling Additions	265.1	128.4	393.5	4,211	1,873	6,084	686.2	315.7	1,001.9
Acquisitions	643.9	24.5	668.4	4,379	726	5,107	1,081.8	97.1	1,179.1
Revisions	(172.5)	(117.0)	(289.5)	(1,240)	(463)	(1,705)	(296.5)	(163.3)	(460.0)
Production	(134.3)	0.0	(134.3)	(1,770)	0	(1,770)	(311.3)	0.0	(311.3)
December 31, 1998	1,884.2	327.5	2,211.7	17,040	4,801	21,841	3,588.2	807.6	4,395.8

Reserves Volumes

As at December 31, 1998	Crude Oil Mstb	Natural Gas Mmcf	NGL Mstb	Mboe (@10:1)
	Company's Share of Remaining Reserves (Before Royalties)			
Proved Developed				
Producing	648.0	8,691	439.6	1,956.7
Non-Producing	86.2	8,349	710.4	1,631.5
Total Proved	734.2	17,040	1,150.0	3,588.2
Probable Additional	25.7	4,801	301.8	807.6
Total Proved + Probable	759.9	21,841	1,451.8	4,395.8

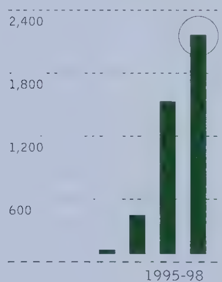
Present Value of Estimated Future Net Revenue Before Tax

As at December 31, 1998 ($000s)	*PV 0%*	*PV 10%*	*PV 15%*
Proved Developed			
Producing	34,462	16,056	13,081
Non-Producing	25,814	10,481	7,936
Total Proved	60,276	26,537	21,017
Probable Additional	15,227	5,124	3,781
Total Proved + Probable	75,503	31,661	24,798

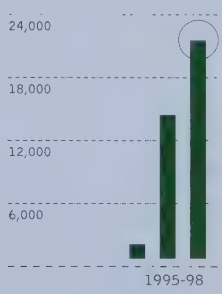
Price Forecast *(As at December 31, 1998)*

Year	*WTI at Cushing $US/Bbl*	*Edmonton Reference Price $/Bbl*	*ProGas $/Mmbtu*	*Exchange Rate ($US/$Cdn)*
1999	15.00	21.73	2.20	0.66
2000	17.00	23.98	2.25	0.68
2001	19.00	26.10	2.30	0.70
2002	20.00	27.51	2.41	0.70
2003	20.50	28.20	2.54	0.70
2004	21.01	28.91	2.65	0.70
2005	21.54	29.64	2.76	0.70
2006	22.08	30.39	2.87	0.70
2007	22.63	31.15	2.99	0.70
2008	23.19	31.94	3.10	0.70

Oil & NGLs Reserves
(Mstb)



Natural Gas Reserves
(Mmcf)



The following discussion and analysis compares the financial and operating results for 1998 with those of 1997 and should be read in conjunction with the audited financial statements of Belfast for the year ending December 31, 1998.

Operations

Operating income for the year ended December 31, 1998 increased 150% to $4,667,981 from $1,867,373 in 1997. This increase reflects both a 55% rise in production volumes that averaged 853 boe/d during the year compared to 552 boe/d in 1997 and a 46% increase in net-backs on a barrel of oil equivalent basis for the same time period.

Oil prices averaged $12.83/bbl in 1998 versus $19.76/bbl the previous year. The decrease was largely due to weaker world oil prices and an increase in the average differential between heavy and light crude oil prices year over year. Gas prices, however, were stronger, averaging $2.08/mcf in 1998 up from $1.62/mcf in 1997. Natural gas liquids averaged $16.69/bbl for the year compared to $14.85/bbl the prior year. Higher gas and natural gas liquids prices were mainly due to a stronger North American gas market and a change in Belfast's product mix. This change is with respect to ethane which was previously extracted from the gas stream in 1997 and sold as a low priced liquid. In 1998, the ethane was left in the gas stream and sold as a gas equivalent, resulting in increased gas and liquids prices.

Operating Results

Year ended December 31	*1998*	*1997*	*Percent Change*
Gross Operating Revenue	$ 6,201,890	$ 3,267,084	89%
Royalties (net of ARTC)	(597,516)	(639,509)	(7%)
Production Expenses	(936,393)	(760,202)	23%
Operating Income	$ 4,667,981	$ 1,867,373	150%
Production BOE	311,408	201,524	55%
Production BOED	853	552	55%
Netbacks Per BOE			
Sales Price	$ 18.45	$ 16.21	14%
Royalties (net of ARTC)	(1.92)	(3.17)	(40%)
Production Expenses	(3.01)	(3.77)	(20%)
Operating Income	$ 13.52	$ 9.27	46%

A significant reduction in operating costs was realized in 1998 due to a full year of operations at the Company's new Belfast Lodgepole gas plant. Throughput increased during the year, and this increase prompted a plant expansion in September of 1998 from 20 Mmcf/d to 30 Mmcf/d of raw inlet gas. As expected when the plant was commissioned in late 1997, the Company's operating netback per barrel of oil equivalent improved despite severely depressed commodity prices. Belfast believes these operating efficiences will continue into the foreseeable future, promoting the Company's continued profitability.

Royalties, net of ARTC, decreased to $1.92/BOE in 1998 from $3.17/BOE in 1997. As a percentage of operating revenue, royalties averaged 10% in 1998 compared to 20% in the previous year. Lower royalties, on both a dollar per barrel and a percentage of production basis were due primarily to the combination of softer commodity prices year over year and a favorable ARTC ruling on previously non-ARTC eligible production in the Lodgepole area.

Net Asset Value

($000's)	*1998*	*1997*	*1996*	*1995*
Proven plus probable (PV 10) escalated including ARTC	$ 31,661	$ 29,989	$ 4,731	$ 652
Land	3,451	1,603	664	–
Debt	(3,500)	–	–	–
Working capital	(672)	2,420	3,384	738
Net asset value	$ 30,940	$ 34,012	$ 8,779	$ 1,390
Basic number of shares	16,286,000	14,885,000	10,535,000	3,620,000
Net asset value per share	$ 1.90	$ 2.28	$ 0.83	$ 0.38

Production expenses totalled $936,393 in 1998 or $3.01/boe compared to $760,202 or $3.77/boe in 1997. The decrease, on a barrel of oil equivalent basis, arose from higher production volumes in lower cost, Company operated areas and higher overall economies of scale due to increased production.

Property Acquisitions

The Corporation completed three material property acquisitions during 1998 totalling $4.2 million. Various producing reserves and undeveloped lands were acquired in two new operating areas from three major producers.

General and Administrative Expenses

General and administrative expenses increased to $501,233 during the year from $159,739 in the prior year. This increase was primarily due to rising employee costs resulting from the addition of two staff members to the exploration team and one member to the financial team, and increased bank financing expenses.

Depletion and Amortization

The Company's depletion and depreciation expense amounted to $1,717,817 or $5.52/boe relative to $844,977 or $4.19/boe in 1997. The year over year increase was generated as a result of rising production and an increased depletable asset base. Higher 1998 capital expenditures yielded an increase in proven reserves to 3,588 Mboe at year-end 1998 compared to 2,428 Mboe last year. This equates to a 48% increase in the proved reserve base and a 4.7 times production replacement multiple.

Financing

During the fourth quarter of 1998, Belfast completed a private placement of flow-through common shares for gross proceeds of $2,022,000. The proceeds from this offering will be used to partially fund the Company's 1999 exploration and development program. In 1998, the Corporation also issued 390,000 common shares upon exercise of options for gross proceeds of $206,700. The total cost of both issues was $95,887. Belfast currently has credit facilities of $14.0 million with a Canadian chartered bank of which $3.5 million was drawn at December 31, 1998.

Liquidity and Capital Resources

December 31	*1998*	*1997*
Investing Activities		
Capital expenditures	$ 12,997,499	$ 11,796,664
Funded By:		
Cash flow from operations	$ 4,162,997	$ 1,775,809
Issue of common shares	2,132,813	9,047,912
Loans receivable	90,000	8,750
Bank debt	3,500,000	–
Change in working capital	3,111,689	964,193
Total funds	$ 12,997,499	$ 11,796,664

Income Taxes

The Corporation, excluding provincial royalties and capital taxes, did not pay federal or provincial income taxes in 1998. However, as stated in the notes to financial statements (Note 7), Belfast has a lower tax base than the net book value of its assets due to the renunciation of resource pools to shareholders as a result of the issuance of flow-through shares in prior years. In 1998, the Company had a large corporation tax liability of $21,119.

Cash Flow and Earnings

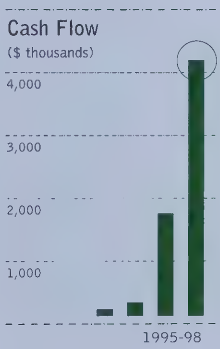
Cash flow for 1998 was $4,162,997 compared to $1,775,809 the previous year which reflects production growth and improved netbacks. Net income for the year rose 233% to $1,582,725 from $475,165 in 1997. On a per share basis, basic cash flow for 1998 totalled $0.28 per share versus $0.16 in 1997 and basic earnings were $0.11 per share compared to $0.04 per share in 1997. Fully diluted, cash flow per share equated to $0.25 per share compared to $0.14 in 1997, and net earnings were $0.10 per share up from $0.04 per share previously. The basic weighted average shares outstanding for 1998 totalled 15,062,364 compared to 11,304,795 in 1997, and fully diluted weighted average shares outstanding were 16,357,841 versus 13,191,998 in 1997.

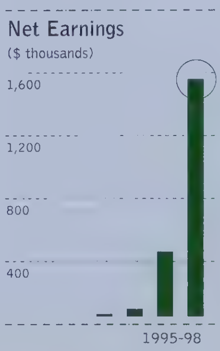
Cash Flow and Earnings

	1998 Amount	1998 Per BOE	1998 Per Share	1997 Amount	1997 Per BOE	1997 Per Share
Netback per BOE	$ 4,667,981	$ 14.99	$ 0.31	$ 1,867,373	$ 9.27	$ 0.17
Interest income	17,368	0.06	0.00	78,174	0.39	0.00
General and administrative	(501,233)	(1.61)	(0.03)	(159,739)	(0.79)	(0.01)
Current income taxes	(21,119)	(0.07)	(0.00)	(9,999)	(0.05)	0.00
Cash flow from operations	4,162,997	13.37	0.28	1,775,809	8.81	0.16
Depletion and amortization	(1,717,817)	(5.52)	(0.11)	(844,977)	(4.19)	(0.07)
Deferred income taxes	(862,455)	(2.77)	(0.06)	(455,667)	(2.26)	(0.05)
Net income	$ 1,582,725	$ 5.08	$ 0.11	$ 475,165	$ 2.36	$ 0.04

Year 2000

Management has confirmed with the Company's information systems suppliers that all required programming changes have been made to be Year 2000 compliant. Although current computer systems have been verified to be Year 2000 compliant, management is unable to predict the potential consequences of this event.





MANAGEMENT'S REPORT

Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial operating data contained elsewhere in the report. The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying financial statements have been prepared using policies and procedures established by management and reflect fairly the Company's financial position, results of operations and changes in financial position, within reasonable limits of materiality and within the framework of the accounting policies outlined in the notes to the financial statements.

Management has established and maintains a system of internal control which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate.

The financial statements have been examined by external auditors. Their examination provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition of the Company. The Audit Committee of the Board of Directors has reviewed in detail the financial statements with management and the external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Barry J. Stobo
President and Chief Executive Officer

Lawrence F. Walter
Vice President, Finance and Chief Financial Officer

Calgary, Canada
March 19, 1999

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheet of Belfast Petroleum Inc. as at December 31, 1998 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and the results of its operations and the changes in financial position for the year then ended in accordance with generally accepted accounting principles.

The financial statements for the year ended December 31, 1997 were reported upon by other auditors who gave their opinion without reservation in their report dated March 13, 1998.

KPMG LLP
Signed
Chartered Accountants

Calgary, Canada
March 19, 1999

BALANCE SHEET

As at December 31

	1998	1997
ASSETS		
Current assets		
Cash	$ –	$ 1,504,362
Accounts receivable	3,207,773	2,679,319
Prepaid expenses	29,885	16,717
Current portion of loans receivable (Note 3)	110,000	90,000
	3,347,658	4,290,398
Loans receivable (Note 3)	109,250	219,250
Capital assets (Note 4)	23,446,517	12,130,920
	$ 26,903,425	$ 16,640,568
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	$ 667,808	$ –
Accounts payable and accrued liabilities	3,351,796	1,870,657
	4,019,604	1,870,657
Provision for site restoration	61,585	25,669
Bank debt (Note 5)	3,500,000	–
Deferred income taxes	1,379,445	516,990
	8,960,634	2,413,316
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	15,803,445	13,670,631
Retained earnings	2,139,346	556,621
	17,942,791	14,227,252
	$ 26,903,425	$ 16,640,568

Approved on behalf of the Board:

J W Pelter

Director

Director

See accompanying notes to the financial statements

STATEMENT OF INCOME AND RETAINED EARNINGS

For the Years ended December 31

	1998	1997
Revenue		
Oil, gas and liquid sales	$ 5,746,429	$ 3,267,084
Royalties	(1,081,828)	(670,020)
Alberta royalty tax credit	484,312	30,511
Other operating revenue	455,461	–
	5,604,374	2,627,575
Interest income	17,368	78,174
	5,621,742	2,705,749
Expenses		
General and administrative	324,171	159,739
Interest on bank debt	177,062	–
Operating	936,393	760,202
Depletion and depreciation	1,717,817	844,977
	3,155,443	1,764,918
Net income before income taxes	2,466,299	940,831
Income taxes (Note 7)		
Current	21,119	9,999
Deferred	862,455	455,667
	883,574	465,666
Net income	1,582,725	475,165
Retained earnings, beginning of year	556,621	81,456
Retained earnings, end of year	$ 2,139,346	$ 556,621
Basic net income per share	$ 0.11	$ 0.04
Fully diluted net income per share	$ 0.10	$ 0.04

See accompanying notes to the financial statements

STATEMENT OF CASH FLOWS

For the Year ended December 31

	1998	1997
Net income	$ 1,582,725	$ 475,165
Add non-cash items:		
Depletion and depreciation	1,717,817	844,977
Deferred income taxes	862,455	455,667
Cash flow from operations	4,162,997	1,775,809
Net change in non-cash working capital	939,519	(429,379)
	5,102,516	1,346,430
Financing activities		
Issue of share capital	2,228,700	9,631,500
Share issue costs	(95,887)	(583,588)
Increase in bank debt	3,500,000	–
Repayment of loans receivable	90,000	90,000
Loans receivable	–	(81,250)
	5,722,813	9,056,662
Investing activities		
Capital expenditures	(12,997,499)	(11,796,664)
Decrease in cash	(2,172,170)	(1,393,572)
Cash position, beginning of year	1,504,362	2,897,934
Cash position (bank indebtedness), end of year	$ (667,808)	$ 1,504,362
Basic cash flow from operations per share	$ 0.28	$ 0.16
Fully diluted cash flow from operations per share	$ 0.25	$ 0.14

See accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 1998 and 1997

1. Commencement of business

Belfast Petroleum Inc. (the "Company") was incorporated under the Business Corporations Act (Alberta) on September 14, 1993. The Company is engaged in the acquisition of, exploration for and the development of oil and natural gas in Alberta. Acquisition of oil and natural gas properties commenced in 1993 with production commencing in 1994. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

2. Summary of significant accounting policies

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. The more significant of these accounting policies are the following:

a. Petroleum and natural gas properties and equipment

The Company follows the full cost method of accounting in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized in cost centres and charged against income as set out below. Such costs include land acquisition, geological and geophysical, carrying charges of non-producing properties and costs of drilling both productive and non-productive wells, related plant and equipment and administrative costs related to exploration and development activities.

Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

Depletion is provided on costs accumulated in producing cost centres using the unit of production method. For purposes of the depletion calculation, gross proved oil and gas reserves as determined by outside consultants are converted to a common unit of measure on the basis of relative energy content.

The net carrying costs of the Company's oil and gas properties in producing cost centres is limited to an estimated recoverable amount. This amount is the aggregate of future net revenues from proved reserves and the costs of undeveloped properties, net of impairment allowances, less future general and administrative costs, financing costs, future site restoration costs and income taxes. Future net revenues have been calculated using prices in effect at the Company's year end without escalation or discounting.

b. Capital assets

Capital assets are recorded at cost. Depreciation of office furniture and equipment is provided at a rate of 20% per annum.

2. Summary of significant accounting policies (continued)

c. Joint interest operations

Substantially all of the exploration and production activities of the Company are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

d. Future removal and site restoration costs

Estimated future removal and site restoration costs are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated by management in consultation with engineers based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and depreciation expense and actual future removal and site restoration expenditures are charged to the accumulated provision account as incurred.

e. Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and equipment and share capital are reduced by the estimated income taxes related to the renounced income tax deductions when the expenditures are incurred.

f. Income taxes

The Company follows the tax allocation method of accounting for corporate income taxes. Deferred taxes are provided to the extent that current taxes have been reduced by claiming amounts, primarily exploration and development costs and capital cost allowance, in excess of the related depletion and depreciation recorded in the financial statements.

g. Per share data

Per share amounts are calculated based on the weighted average number of common shares outstanding. The weighted average number of common shares outstanding are as follows:

	Basic	*Fully Diluted*
1998	15,062,364	16,357,841
1997	11,304,795	13,191,998

3. Loans receivable

Pursuant to a loan agreement dated October 28, 1997, the Company advanced $81,250 to an Officer for the purpose of purchasing 25,000 common shares at a price of $3.25 per common share. Pursuant to loan agreements dated May 22, 1996, the Company advanced $318,000 to three Officers for the purpose of purchasing 600,000 common shares at a price of $0.53 per common share. The loans bear interest at 5% per annum and are secured by promissory notes.

The remaining principal repayments are as follows:

1999	$ 110,000
2000	68,000
2001	20,000
2002	21,250
	219,250
Less current portion	(110,000)
	$ 109,250

4. Capital assets

	December 31, 1998		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties and equipment	$ 26,038,209	$ 2,675,852	$ 23,362,356
Office furniture and equipment	125,421	41,260	84,161
	$ 26,163,630	$ 2,717,112	$ 23,446,517

	December 31, 1997		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties and equipment	$13,071,982	$ 1,014,991	$12,056,991
Office furniture and equipment	94,149	20,220	73,929
	$ 13,166,131	$ 1,035,211	$12,130,920

During the year the Company capitalized $343,941 (1997 – $263,103) in overhead costs related to capital expenditures.

As at December 31, 1998, the estimated future site restoration costs to be accrued over the life of the remaining proven reserves were $425,415.

At December 31, 1998, the Company had a $12.6 million cushion in its ceiling test. The prices used in the ceiling test evaluation were $2.62 per mcf for natural gas, $15.76 per barrel for crude oil and $14.94 per barrel for natural gas liquids.

5. Bank Debt

The Company has a $9.0 million revolving term demand production loan and a $5.0 million acquisition facility in place. The production loan bears interest at bank prime plus 0.125% and is secured by all of the Company's assets with a first fixed and a floating charge debenture. The acquisition facility bears interest at bank prime plus 0.375% and is subject to a 0.125% standby fee on the unused balance. At year-end, all outstanding bank debt was drawn against the production loan. These borrowing arrangements may be renewed annually thereafter, at the lender's option based on an engineering evaluation of the Company's oil and gas properties.

6. Share capital

a. Authorized

Unlimited number of common shares without par value
Unlimited number of preferred shares without par value

b. Issued and outstanding common shares

	Number of Shares	*Value of Shares*
Balance December 31, 1996	10,535,000	$ 5,088,439
Issued for cash pursuant to share purchase options to an Officer	50,000	26,500
Issued pursuant to special warrants	1,292,000	1,744,200
Issued pursuant to a public offering for cash		
To an Officer	25,000	81,250
Others	1,975,000	6,418,750
Share issue costs	–	(583,588)
Tax effect of flow-through shares	–	(465,720)
	13,877,000	12,309,831
Deemed to be issued pursuant to special warrants	1,008,000	1,360,800
Balance December 31, 1997	14,885,000	$ 13,670,631
Issued for cash pursuant to share purchase options to Officers	390,000	206,700
Flow-through shares issued for cash		
Directors and Officers	61,000	122,000
Others	950,000	1,900,000
Share issue costs	–	(95,886)
Balance December 31, 1998	16,286,000	$ 15,803,445

During 1998, the Company issued 1,011,000 flow-through common shares at a price of $2.00 per common share for total consideration of $2,022,000. The Company intends to renounce qualifying expenditures totaling $2,022,000 in 1999.

6. Share Capital (continued)

c. Share options

The Company has granted Directors, Officers, employees and consultants the option to purchase common shares as follows:

Number of Options	*Exercise Price*	*Expiry Date*
360,000	$ 0.53	May 3, 2000
90,000	$ 1.30	December 11, 2000
80,000	$ 2.13	June 17, 2001
75,000	$ 2.65	January 5, 2003
411,000	$ 2.25	March 17, 2003
20,000	$ 2.85	April 27, 2003
300,000	$ 2.00	September 9, 2003
240,000	$ 1.55	December 10, 2003

7. Income taxes

The provision for income taxes in the statement of income varies from the amount that would be computed by applying the expected income tax rate of 44.3% to net income before provision for income taxes. The principal reasons for the difference between such "expected" income tax expense and the amount actually recorded are as follows:

December 31	*1998*	*1997*
Computed "expected" income tax expense	$ 1,092,570	$ 416,788
Increase (decrease) in income taxes resulting from:		
Crown royalty net of Alberta royalty tax credit	226,712	239,281
Resource allowance	(420,486)	(185,902)
Depletion of non-tax base assets	27,483	39,452
Large corporations tax	21,119	9,999
Other	(63,824)	(53,952)
	$ 883,574	$ 465,666

At December 31, 1998 the Company had a net book value which exceeded available tax deductions by $3,011,439.

8. Financial instruments

The Company's financial instruments that are included in the balance sheet are composed of accounts receivable, loans receivable and current liabilities.

Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the balance sheet, including loans receivable, approximate their carrying amount due to the short term maturity of those instruments.

Credit risk

Virtually all of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

9. Year 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or third parties, will be fully resolved.

CORPORATE INFORMATION

Directors

James C. Crawford, Q.C. (5)*+
Partner, McDonald Crawford
Barristers and Solicitors
Calgary, Alberta

Jack Peltier (3)*+
Oil and Gas Executive

Gordon D. Williams (5)^
Consulting Geologist

Barry J. Stobo (3)^
President and CEO
Belfast Petroleum Inc.

() *years as a Director*

* *member of the Audit Committee*

^ *member of environmental and safety committee*

\+ *member of the compensation committee*

Officers and Key Personnel

James C. Crawford
Chairman of the Board

Barry J. Stobo^
President and CEO

Paul E. MacDonell^
Vice-President, Corporate Development

John R. Woolley
Vice-President, Exploration

Lawrence F. Walter
Vice-President, Finance and CFO

Helmut R. Eckert
Land Manager

Auditors

KPMG LLP
Calgary, Canada

Bankers

The National Bank of Canada
Calgary, Alberta

Legal Counsel

Macleod Dixon
Calgary, Alberta

Transfer Agent and Registrar

Montreal Trust Company of Canada

Exchange Listing

The Alberta Stock Exchange
Symbol: BPY

For further information:

Barry J. Stobo
President and CEO

Lawrence F. Walter
Vice-President, Finance and CFO

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